4. (LEASE BOND, RICHFIELD OIL CORPORATION, RINCON OIL FIELD, VENTURA COUNTY, P.R.C. 1466.1.)

After presentation of Calendar Item No. 25 attached, Mr. Hortig pointed out that preliminary construction is about to be undertaken of a sand-filled, rock-enclosed island.

Mr. K. M. Cook, appearing on behalf of the Richfield Oil Corporation, stated that the bond in question did not appear to be in strict compliance with the terms of the lease, in that the terms call for a bond in a reasonable amount not to exceed 50 percent of the cost of removal of the island, and he felt that the cost figure being used on which to base the bond was arrived at arbitrarily. He read from a letter written by the designer of the island, who estimated that cost of removal of the island would be $400,000. Mr. Cook further reported that the bond of $1,250,000 being requested would cost an excessive amount - $18,750 a year, or over a five-year period, $93,750 - and asked that the problem be studied further in an effort to reduce the bond to something in the vicinity of the estimated cost of removal.

Mr. Hortig pointed out that while the staff had no reason to question the estimated cost of removal of the island, the bond was to cover three features of the lease - to guarantee placement, maintenance, and removal - whereas the $400,000 estimate was for removal only, and he stated that there could be auxiliary structures which could be expensive to remove. He suggested, as an alternative to the bond, that the Richfield Oil Corporation could deposit U. S. Treasury Bonds with the State Treasurer in an amount equivalent to the bond to be maintained, payable to the State in case it had to proceed against the bond, with the increment on the U. S. Treasury Bonds to accrue to the lessee.

The Chairman questioned how much a company such as Richfield ordinarily would invest in securities such as U. S. Treasury Bonds, indicating that such a requirement might work a hardship because of the excessive sum that it would require a lessee to invest in bonds. He then asked if the State Lands Commission had ever cashed in on any of the bonds posted with it, to which Mr. Hortig replied in the affirmative, but stated that this had not been necessary in the case of responsible operators. Considerable discussion followed about the question of requiring bonds, during which it was brought out that Richfield's lease was the first one issued on which this type of bond was required, but that this type of coverage would be included in all future leases to be issued. Mr. Hortig reported that an attempt had been made to relate the amount of the bond to the realistic costs that might accrue to the State.

Action was deferred, pending further review by the staff.

Attachment
  Calendar Item No. 25 (1 page)

(LEASE BOND, RICHFIELD OIL CORPORATION, RINCON OIL FIELD, VENTURA COUNTY, P.R.C. 1466.1.)

Oil and Gas Lease P.R.C. 1466.1, issued August 29, 1955 to the Richfield Oil Corporation pursuant to competitive public bidding, provides in part "...the Lessee shall also maintain a good and sufficient bond in favor of the State of California in a reasonable amount as specified by the State but not to exceed fifty percent (50%) of the cost of the filled lands and auxiliary structures to guarantee the faithful performance by the Lessee of the placement and maintenance of the filled lands and the removal thereof at the request of the State upon the expiration or sooner termination of this Lease." Cost estimates under a contract which has been awarded for construction of a drillsite island under the subject lease give a value of $2,680,000.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO INFORM THE RICHFIELD OIL CORPORATION, LESSEE UNDER OIL AND GAS LEASE P.R.C. 1466.1, THAT A GOOD AND SUFFICIENT BOND IN FAVOR OF THE STATE OF CALIFORNIA SHALL BE FILED WITH THE STATE AND MAINTAINED IN THE AMOUNT OF $1,250,000 TO GUARANTEE THE FAITHFUL PERFORMANCE BY THE LESSEE OF THE PLACEMENT AND MAINTENANCE OF THE FILLED LANDS AND THE REMOVAL THEREOF AT THE REQUEST OF THE STATE UPON THE EXPIRATION OR SOONER TERMINATION OF THE LEASE AS REQUIRED BY SECTION 13 OF OIL AND GAS LEASE P.R.C. 1466.1.